

Class-12 Accountancy
Chapter 1 - Basics of Partnership

Introduction

A business can be organised in the form of a sole proprietorship, a partnership firm or a company. In Sole Proprietorship total capital is invested by only one person and only he is responsible for functioning and all the profits and losses. The main disadvantage of single ownership is that his all personal properties are always at risk and may be used for the payment of the business liabilities. That's why the need of partnership takes place. In partnership loss is shared by all the partners while in single proprietorship only one person is suffering for all losses. The main advantage of partnership is that there are two or more persons to take the responsibility of business. All profits and losses are distributed among the partners. Partnership comes into existence out of agreement. The agreement may be written or oral among the partners. It is better to have a written agreement among the partners to avoid the conflicts or disputes. Whenever there is dispute for the distribution of the profits among the partners, in such case Indian partnership act 1932 is applicable.

Meaning and Definition of Partnership

A partnership is formed by an agreement. Partnership agreement may be written or oral. The agreement should be to share the profits of the business. The firm's business may be carried on by all the partners or any one of them acting for all. As per the law, it is not necessary to have a written agreement but to avoid the trouble in managing the affairs of the partnership firm, it is always advisable to have a written partnership deed which should be signed by all the partners.

Definition According to Section- 4 of the Indian Partnership Act, 1932 :

"Partnership is the relationship between persons who have agreed to the share the profits of a business carried on by al or any one of them acting for all"

Features/Characteristics of Partnership

1. **Two or More Persons :** A partnership business can be commenced with two or more partners. According to the Indian Companies Act, 1956, maximum number of persons in case of a banking business is 10 (Ten) and 20 (Twenty) in case of other business.

2. **Agreement Between the Partners** : A partnership is formed by an agreement. Partnership agreement can be written or oral. There is no fixed or compulsory law for the formation of written partnership agreement but in the absence of a written agreement partners may face difficulty in managing the affairs of the partnership firm. Therefore, to avoid the conflicts/disputes among the partners, it is also advisable to have a written partnership agreement.

3. **Lawful Business** : The agreement should be carrying on some legal business. Unlawful activities are not considered as partnership business.
Example 1 : Vinod and Yuvraj purchased a piece of land jointly and sold after sometime at a profit. The profit earned from sale of land was shared by Vinod and Yuvraj Equally. It will not be treated as partnership business.
Example 2 : David and John are partners doing smuggling and share the amount earned equally. It is not a partnership business.

4. **Sharing of Profits** : It is necessary to share the profits/losses of a partnership business among the partners. A group of people doing some charitable activities, will not be termed as partnership. The ratio of sharing profits/losses should be determined by the agreement and in case if there is not partnership deed, in such a situation profits/losses should be shared equally.

5. **Business Carried on by all or any of them acting for all**: It is not necessary for all the partners to participate in day-to-day activities of the business. A partnership business can be carried on by all the partners or any one of them acting for all on behalf of other partners. In actual, partnership is based on the concept of Mutual Agency relationship. A partner is both an agent and a principal because he binds other partners by his acts and in the same manner he is also bound by the acts of the other partners.

Meaning and Contents of Partnership Deed

A Partnership is formed by an agreement. This agreement may be written or oral. In actual, Partnership deed is a written agreement signed by all the partners. It is a document which contains all terms and conditions of partnership agreed by the partners. As we know that partnership is the result of agreement among the partners. The agreement may be written or oral. In absence of a written agreement, there may be dispute or conflicts among other partners regarding profits. Therefore, an agreement should be written and signed by all the partners. Partners can make changes in the clauses of partnership deed time to time with the consent of all partners.

Contents of partnership deed

The partnership deed usually contains the following particulars:

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1. Name of the Firm ; address of Firm ; its main Business
 2. Names and addresses of all partners
 3. Date of commencement of partnership
 4. Capital contributed by each partners
 5. Ratios in which profits and losses are to be shared by the partners
 6. Salaries, commission, allowances payable to the partners
 7. Rights, duties and liabilities of the partners
 8. Duration of partnership, if any
 9. Mode of auditors appointment
 10. Accounting period of the firm
 11. Rules regarding the operation of bank account
 12. Loan given to the firm by a partner, interest on that loan payable to the partners
 13. Method of valuation of goodwill
 14. Rules to be followed in case of admission, retirement and death of a partner
 15. Settlement of accounts at the time of dissolution
 16. Settlement of disputes among other partners